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C O N F I D E N T I A L SECTION 01 OF 03 ISTANBUL 000022

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TAGS: [EFIN](#) [KNNP](#) [PREL](#) [PGOV](#) [TU](#) [IR](#)
SUBJECT: RAISING CONCERNS WITH TURKISH BANKS ABOUT IRAN'S
DECEPTIVE FINANCIAL PRACTICES

REF: A) 08 STATE 12551 B) 08 ANKARA 2091

Classified By: Deputy Principal Officer Sandra Oudkirk; reason 1.5 (d)

¶1. (C) Summary: We met with representative from the Turkish Bankers' Association and several Turkish banks to highlight our ongoing concerns about Iran's deceptive financial practices and urge them to undertake more rigorous scrutiny of their relationships with Iranian banks. We also shared information from Bank Mellat's website about its correspondent relations with specific Turkish banks, as well as news articles suggesting intentional efforts on Bank Mellat's part to avoid international sanctions and scrutiny. Our interlocutors took our views onboard, sought to reassure us that Turkish banks are exercising vigilance regarding Iranian banks, and emphasized the need for more actionable information on improper activities of Iranian banks in Turkey. They reacted to our Bank Mellat information with quiet discomfort. Comment: We doubt these banks will limit cooperation with Bank Mellat on the basis of this demarche but we believe they are now more attuned to the increasing reputational risk of such cooperation. In the event a future USG delegation visits the region to reinforce our concerns on Iran's deceptive financial practices, a meeting in Istanbul with banking interlocutors could usefully keep up the pressure. End Summary.

¶2. (SBU) Following up on Embassy Ankara's demarches (ref B) to the MFA, the Turkish banking regulator (BDDK), and the Turkish financial intelligence unit (MASAK), ConGen Istanbul's NEA "Iran Watcher" and Econ FSN met January 14 in Istanbul with a representative from the Turkish Bankers' Association and compliance officers from Ak Bank, Is Bank, Citibank, and Turk Ekonomi Bank (TEB), to deliver the talking points and share the non-paper from ref A.

Turkish Banks claim vigilance regarding the Iranian financial system

¶3. (SBU) We noted that full implementation of UNSCRs on Iran by all member states is critical to addressing the threat posed by Iran, and reviewed the obligations and requested actions from UNSCRs 1737, 1747, and 1803. We reviewed the USG's efforts of the past year to highlight to the international banking sector the extreme risks involved in conducting business with Iranian banks, including the risk of unwittingly facilitating Iranian proliferation activities. We pointed out conducting business with Iranian banks and financial institutions carries both a reputational risk to Turkish banks as well as the risk of existing penalties in the event Iranian banks are found to be engaged in illicit activities. Sharing the ref A non-paper, we underscored that Iran may be exploiting the international financial sector and using it to facilitate activities prohibited by the UN, and pointed to the non-paper's examples of Iranian entities using deceptive practices to evade sanctions or hide other

activities of concern. Finally, we noted that the USG, in coordination with the UK, France, Germany, and Italy (ref B), asked the GOT in December to ask Turkish banks and financial institutions to closely review and re-assess the services they are providing to Iranian companies and projects in Iran, as well as correspondent banking relationships in Turkey with Iranian banks.

14. (SBU) In response, the Turkish Bankers' Association and bank representatives asked us how the Turkish banking regulator and Turkish financial intelligence unit had reacted to Embassy Ankara's demarche; none of our interlocutors had been informed by the GOT of the US-EU4 demarche last month in Ankara. The banking representatives confirmed that they had all received the October 2008 FATF guidance on implementing UNSCR 1803 and previous UNSCRs. The TEB representative added that his bank and others also pay close attention to the U.S. and EU terrorist and proliferation lists. The Bankers' Association representative agreed that FATF was right to assess that Iran's efforts in 2008 to strengthen its AML/CTF legal regime did not go far enough to resolve the vulnerabilities of the Iranian financial system. All interlocutors agreed strongly that it is in Turkish banks' own interests to undertake the fullest possible scrutiny of their relationships with Iranian banks. They requested that if the USG or EU governments have any further derogatory information about Iranian banks with which the Turkish banks do business, or any information about Iranian banks in Turkey conducting illegal or improper activities, that we share that information with them as well as with Turkish government authorities.

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But reveal some discomfort on Bank Mellat ties

15. (SBU) Shifting to a discussion specifically of Bank Mellat's three branches in Turkey, we shared print-outs taken from Bank Mellat Turkey's website (www.mellatbank.com) which confirm that Bank Mellat in Turkey has "correspondent relations" with four Turkish banks: Yapi Kredi, Garanti Bank, Is Bank, and Halk Bank (comment: the first three are private Turkish banks, Halk Bank is a state-owned bank). We underscored that we did not have information to share about any specific illegal or improper activities that Bank Mellat's Turkey branches were engaged in, but we noted that according to Bank Mellat's own website its branches in Turkey are 100 percent wholly-owned subsidiaries of Bank Mellat Iran, and thus Bank Mellat Iran's conduct -- including maintaining accounts for the UN-designated Atomic Energy Agency of Iran (AEOI) and handling transfers to other Iranian nuclear-related companies as recently as 2007 -- should be taken into account when dealing with Bank Mellat Turkey. We cautioned that as financial sanctions and other US, EU, and like-minded "national measures" against Iran continue and expand in 2009, Turkish banks that do business with Bank Mellat may face increasing reputational risk.

16. (SBU) Turning to specific examples of Turkish bank cooperation with Bank Mellat, we speculated that Garanti Bank's "correspondent relationship" with Bank Mellat in Turkey might potentially raise concerns with Garanti Bank's U.S. shareholders, since 26 percent of Garanti Bank is owned by General Electric (comment: GE was compelled to issue a statement in June 2008 confirming that it does not conduct business with Iran, after a spate of media stories in spring 2008 had reported ongoing GE business interests in Iran. We assume GE's board and shareholders would thus be sensitive to reports that a bank partially owned by GE is has a correspondent banking relationship with an Iranian bank that has been sanctioned by the USG. End comment.) We also pointed out that Turkish state-owned Halk Bank's relationship with Bank Mellat may prove to be a barrier for U.S. companies that otherwise might be interested in bidding on Halk Bank's eventual privatization. We urged Turkish banks that do

business with Bank Mellat in Turkey to follow the FATF recommendation calling for a risk assessment of direct correspondent relationships with Iranian banks, to assess whether Bank Mellat in Turkey is exercising adequate controls to detect and prevent sanctions evasion.

17. (SBU) To further illustrate the risks of doing business with Bank Mellat, we shared a copy of an August 21, 2008 Financial Times article which quotes Bank Mellat Iran's managing director, Ali Divandari, explaining that Bank Mellat is intentionally seeking business with medium- and small-sized banks because such banks have less U.S. exposure and are less likely to scrutinize Bank Mellat activities as rigorously as large banks. Finally, we asked our interlocutors to assess for themselves the impact of the Iranian government's announced intention to start privatizing Bank Mellat in the coming month (by floating a block of its shares on the Tehran Stock Exchange), pointing out that once privatized, Bank Mellat may have less legal obligation under Iranian law to fully disclose its banking activities. The Turkish banking representatives listened without substantive comment to our cautionary views about conducting business with Bank Mellat in Turkey.

Comment

18. (C) As we expected, our interlocutors took politely onboard the demarche talking points and non-paper, sought to reassure us that their banks are taking every legal and necessary step to exercise vigilance and protect themselves and their reputations, but emphasized the need for actionable information on any improper activities their Iranian banking partners are undertaking in Turkey. Although our interlocutors offered little verbal reaction to the points we made on Bank Mellat, their collective body language revealed a high degree of discomfort, especially over the Bank Mellat print-out identifying correspondent relations with the four Turkish banks, and with the FT article underscoring Bank Mellat's intention to seek out cooperation with banks likely to undertake less scrutiny of its activities. Ultimately, we doubt any of these banks will limit cooperation with Bank Mellat in Turkey on the basis of the information we provided, but we believe they are significantly more attuned now to the increasing reputational risk of that cooperation.

19. (C) Merger and acquisition activities over the last

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several years have given the Turkish banking sector a strong international component. Turkish banks with foreign owners or partners tend to pay careful attention to regulatory requirements in the home market. In the event a future State or Treasury delegation travels to the region to reinforce USG concerns about Iran's deceptive financial practices, we would recommend a meeting in Istanbul with senior managers from banks identified as having a relationship with Bank Mellat (Yapi Kredi, Garanti Bank, and Is Bank) as well as with banks with U.S. corporate links (Citibank, Akbank) and the Bankers Association, to keep up the pressure. End comment.

Wiener